

CLARK COUNTY STAFF REPORT

DEPARTMENT: Budget Office

DATE: July 6, 2021

REQUESTED ACTION: Approval from the Clark County Council to adopt formal fund balance policy for the Real Estate Excise Tax Fund 3083 (REET 2).

 X Consent Hearing County Manager

BACKGROUND

One of Clark County's top priorities is to maintain its long-term financial stability. To achieve this priority, fiscal best practices indicate it is necessary to maintain an appropriate level of reserves in fund balance. Adopting a formal fund balance policy for the Real Estate Excise Tax Fund 3083 (REET 2) will help ensure that sound financial principles and practices are consistently applied from year-to-year.

Fund Balance Policies are intended to establish and maintain appropriate reserve levels to ensure the continued delivery of County services, address emergencies, address temporary revenue shortfalls, and provide stability during economic cycles. Each policy provides guidelines during the preparation of and deliberations of the County budget. Sufficient reserve funds will be managed to provide adequate cash flow, maintain the County's good standing with bond rating agencies, keep the County's interest rates as low as possible, and provide continuity in service delivery. The County shall maintain adequate cash reserves in each fund to maintain a positive cash position at any time during a fiscal year and at year-end.

The County's current practice is to follow industry guidance, to establish an appropriate fund balance. Recent guidance recommends using a risk-based analysis to determine an entity specific fund balance level. In general, the factors included in a risk-based analysis that are specific to Clark County include operational funding requirements, revenue volatility, and emergency reserves. The following factors have been considered for this fund:

- The REET 2 Fund shall maintain a fund balance equal to the subsequent 12 months' debt payment requirements that are paid through this fund. The amount maintained in fund balance should be assessed regularly throughout the year and may temporarily fall below the threshold; however, the minimum balance should be in place on January 1 of each year. In addition, \$1 million should be held in reserve each year for maintenance and debt services on REET 1 eligible debt.
- In addition to the reserves described above, budgeted project expenditures shall not exceed the remaining fund balance plus sixty percent of projected revenues. This recommendation recognizes the volatility of the revenues flowing into the fund by referencing drops in revenue during the past 20 years.

There will be a specific Fund Manager designated for each Fund Balance Policy.

- Each fund will be managed and monitored by the Fund Manager who will, as needed, consult, and collaborate with the County's Finance Team (County Manager, Budget Director, Auditor's Office, and Treasurer's Office).

- The Fund Manager will report on the current and projected level of the reserve funds on an annual basis or as needed.
- The Fund Manager will be responsible for reviewing the Fund Balance Policy on an annual basis and communicating any necessary changes or updates to the County Manager and Clark County Council.

Action requested: Adopt formal fund balance policy for the Real Estate Excise Tax Fund 3083 (REET 2). Attachments to this Staff Report include:

- Fund Balance Policy Document
- Fund Balance Policies Project Guide & Checklist
- Fund Management Best Practices
- Executive Summary “Overview” 2021 Update on Fund Balance Policy Project
- May 26, 2021 REET 2 Work Session Presentation

COUNCIL POLICY IMPLICATIONS

N/A

ADMINISTRATIVE POLICY IMPLICATIONS

N/A

COMMUNITY OUTREACH

These recommendations relate to an internal financial support matter. Community outreach or participation was not a consideration.

BUDGET IMPLICATIONS

There are no budget implications. The Clark County Council has the authority to approve this policy.

YES	NO	
		Action falls within existing budget capacity.
		Action falls within existing budget capacity but requires a change of purpose within existing appropriation
		Additional budget capacity is necessary and will be requested at the next supplemental. If YES, please complete the budget impact statement. If YES, this action will be referred to the county council with a recommendation from the county manager.

BUDGET DETAILS

Local Fund Dollar Amount	
Grant Fund Dollar Amount	
Account	Real Estate Excise Tax Fund 3083 (REET 2)
Company Name	

DISTRIBUTION:

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/s/ Emily M. Zwetzig 06/16/21

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APPROVED: *Glenn J. O'Brien*
CLARK COUNTY, WASHINGTON
CLARK COUNTY COUNCIL

DATE: *July 6, 2021*
SR# *119-21*

APPROVED: _____
Kathleen Otto, County Manager

DATE: _____





CLARK COUNTY FINANCIAL POLICY

Policy Name	Real Estate Excise Tax (REET 2) Fund Balance Reserve Policy	Policy No.	FB-03	Date Adopted	MM/DD/YY
Approval Authority	Clark County Council	Policy Origination Date	February 27, 2018		
Responsible Department/Office	Budget Office Auditor's Office	Responsible Elected Official/Director	County Budget Director Clark County Auditor		
Fund Manager	County Budget Director/ County Finance Director	Policy Revision No.	v2-0	Date Revised	06/15/21
Fund No.	3083	Fund Type	Capital Project Fund		

1. **Fund Description:** The REET 2 Fund is an integral component in paying for the County's infrastructure needs. State law requires that REET 2 Fund expenditures be made for those facilities included in the County's Comprehensive Growth Management Plan and Capital Facilities Financial Plan. It is also the Clark County Council's current directive to prioritize infrastructure spending based on the following criteria:

1. Pay existing debt
 2. Maintain existing assets
 3. Provide for maintenance and operations of new assets prior to acquisition
- a. **Legal References (All Applicable Federal, State, and Local Laws).**
 - i. RCW 82.46.010: Tax on sale of real property authorized—Proceeds dedicated to local capital projects—Additional tax authorized—Maximum rates.
 - ii. RCW 82.46.015: Maintenance of capital projects—Use of tax funds.
 - b. **Major Revenue Source(s):** In 1990, after passing the Growth Management Act (GMA), cities and counties required or choosing to plan under the Act were given greater flexibility to impose impact fees along with the Real Estate Excise Tax and were authorized to charge a second REET to pay for capital projects needed to accommodate population and economic growth and maintain infrastructure concurrency required by the GMA. RCW 82.46.035 allows all cities and counties that are planning under the Growth Management Act (GMA) to have the authority to levy a second 0.25% tax" or "REET 2", on all sales of real estate.

2. **Uses.**

- a. **Permissible Uses.** REET 2 Fund revenues can mainly be used for public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks. Note that acquisition of land for parks is not an outright permitted use of REET 2 Fund receipts, although it is a permitted use for street, water, and sewer projects. Under limited circumstances, REET 2 Funds may be used for maintenance of REET 2 Fund eligible projects, or for those capital projects that qualify as Real Estate Excise Tax (REET 1) projects, including acquisition of land for parks, recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative facilities, judicial facilities, and river flood control projects. The dollar limit on the use of REET 2 Funds for such purposes is the greater of \$100,000 or 25% of available funds, not to exceed \$1 million per year.

- b. **Current Use of Fund.** REET 2 Fund revenues may be used for debt payments on all applicable capital facilities assets. Connecting the fund balance policy to these payments is prudent in ensuring adequate flow of funds to service the debt. The Clark County Council has the authority to direct the use of these funds and can revise directives through a resolution, as desired.
3. **Revenue Volatility.** REET 2 Fund revenue is extremely volatile and is strongly correlated to the economic cycle. Recent history indicates significant decreases in revenue can occur during a downturn in the economy. It is also evident that the recovery of REET 2 Fund revenue is much slower than its potential to drop.
4. **Fund Reserve.** The REET 2 Fund shall maintain a fund balance equal to the subsequent 12 months' debt payment requirements that are paid through this fund. The amount maintained in fund balance should be assessed regularly throughout the year and may temporarily fall below the threshold; however, the minimum balance should be in place on January 1 of each year. In addition, \$1 million should be held in reserve each year for maintenance and debt services on REET 1 eligible debt.

In addition to the reserves described above, budgeted project expenditures shall not exceed the remaining fund balance plus sixty percent of projected revenues. This recommendation recognizes the volatility of the revenues flowing into the fund by referencing drops in revenue during the past 20 years.

5. **Revision History**

Revision	Date	Description of changes	Requested By
v1-0	04/11/18	Initial DRAFT of policy for Finance Team review.	Budget Director
v1-1	1/26/21	Policy update for fund name change	Finance Team
v1-2	3/26/21	Add revenue volatility fund reserve language. Updated Section b. Current Use of Fund language.	Finance Team
v2-0	06/15/21	Final policy draft for Clark County Council review and adoption.	Budget Director

Real Estate Excise Tax (REET 2) Fund Balance Reserve Policy Calculation Addendum
-Information prepared by the Budget Office-

Annual Debt Payments:	<i>The reserve shall maintain a fund balance equal to the subsequent 12 months' debt payment requirements that are paid through this fund.</i>	\$ 0
Reserve for eligible REET 1 Maintenance & Debt Services:	<i>In addition, \$1 million should be held in reserve each year for maintenance and debt services on REET 1 eligible debt.</i>	\$ 1,000,000
Total Annual Fund Balance Amount:		\$ 1,000,000



FUND BALANCE POLICIES PROJECT GUIDE & CHECKLIST

General Information & Best Practices

What is Fund Balance? Fund balance is an accounting term to describe the difference between a fund's assets and liabilities. Different categories of funds include General Fund, Special Revenue Funds, Debt Services Funds, Capital Projects Funds, Enterprise Funds, Internal Services Funds, Agency Funds, and Clearing Funds.

A fund balance policy establishes minimum levels for designated funds to ensure stable service delivery, meet future needs, and protect against financial instability.

The Government Finance Officers Association (GFOA) recommends that governments formally adopt financial policies. Financial policies are central to a strategic, long-term approach to financial management. The key financial policies that are recommended are general fund reserves, reserves in other funds, revenues, expenditures, operating budget, capital asset management, long-term financial planning, debt, investment, accounting and financial reporting, risk management and internal controls, local economic development, and procurement. One of the primary reasons for establishing a policy for fund balance is to provide sufficient cash flow to meet operating needs. Local government revenues are often cyclical in nature. For example, many jurisdictions depend primarily on property tax revenues. This revenue is due from property owners twice a year on April 30 and October 31. Similarly, a water utility fund might receive a significant portion of its revenues during the summer irrigation and watering season. But these entities must meet their financial obligations year-round, which would be difficult, if not impossible, without maintaining a certain minimum fund balance.

For GAAP accounting and reporting entities, fund balance describes the net position of local government funds. There is a distinction made between governmental fund and business-type activities when calculating net position (see BARS, GAAP, Net Position, and Statement of Net Position), but it is intended to measure financial resources currently available.

Overarching Fund Balance Policy Statements Applicable to all Fund Balance Policies

1. **Goals and Objectives.** To provide a framework of definitions, procedures, and guidelines for the management of fund balances in order to ensure the County's fiscal stability, creditworthiness of its debt and to establish a clear, consistently applied method to calculate fund balance.
2. **Policy Statement.** Clark County shall establish clear policy and procedures for developing, appropriating, and managing its operating budget and capital program. This includes a policy for calculating and establishing year-end fund balance targets intended to ensure fiscal stability.
3. **Reason for Policy.** Creation and adoption of financial policies are a key component of Clark County's Vision, Mission, and Strategic Actions. Financial policies help ensure long-term financial stability, a balanced budget, and establishment of the appropriate reserves.

4. **Statement of Scope.** Fund Balance Policies are intended to establish and maintain appropriate reserve levels to ensure the continued delivery of County services, address emergencies, address temporary revenue shortfalls, and provide stability during economic cycles. Each policy provides guidelines during the preparation of and deliberations of the County budget. Sufficient reserve funds will be managed to provide adequate cash flow, maintain the County's good standing with bond rating agencies, keep the County's interest rates as low as possible, and provide continuity in service delivery. The County shall maintain adequate cash reserves in each fund to maintain a positive cash position at any time during a fiscal year and at year-end.
5. **Responsibility.** There will be a specific Fund Manager designated for each Fund Balance Policy.
 - Each fund will be managed and monitored by the Fund Manager who will, as needed, consult and collaborate with the County's Finance Team (County Manager, Budget Director and representatives from Human Resources, Auditor and Treasurer's Offices).
 - The Fund Manager will report on the current and projected level of the reserve funds on an annual basis or as needed.
 - The Fund Manager will be responsible for reviewing the Fund Balance Policy on an annual basis and communicating any necessary changes or updates to the County Manager and Clark County Council.

Policy Development & Checklist

The Finance Team has developed a template and instructions that will be used to standardize all fund balance policies. This template addresses the key components recommended by the GFOA and other leading industry resources.

Key Components of Fund Balance Policies

A fund balance policy establishes minimum levels for designated funds to ensure stable service delivery, meet future needs, and protect against financial instability. The policy should include the following components:

- Goals and objectives
- References
- Purpose of policy
- Statement of scope
- Provisions (Address Key Question in next section)
 - Appropriate fund balance level
 - Use and replenishment of funds
- Administrative information

Fund Balance policies should address the following:

- ✓ Volatility of revenue source.
- ✓ Establish intent for special purpose.
- ✓ Establish target level of reserve.
- ✓ Define maximum level of reserves.
- ✓ Use and replenishment of funds.
- ✓ Identify source of funding.
- ✓ Define allowable expenditures.
- ✓ Strength of collection practices.
- ✓ Historical consumption of inventories and prepaids.
- ✓ Support from general government.
- ✓ Transfers out.
- ✓ Cash cycles/cash flow needs.

- ✓ Customer concentration.
- ✓ Demand for services/business cycle activity.
- ✓ Control over rates and revenues/revenue volatility.
- ✓ Revenue constraints due to backlog of work.
- ✓ Asset age and condition.
- ✓ Volatility of expenses.
- ✓ Control over expenses.
- ✓ Management plans for working capital.
- ✓ Debt position.

Types of County Funds

General Fund (Governmental Funds) 0000-1999: The General Fund is used mainly to account for the County's general purpose or "unrestricted" revenues. Like most government entities, Clark County has one general fund. This is the County's largest single fund, & serves as the primary operating fund.

Special Revenue Funds (Governmental Funds) 0000-1999: Special Revenue Funds are established pursuant to State statutes or local ordinances in order to segregate resources that are designed to be used for specified purposes.

Debt Service Funds (Governmental Funds) 2000-2999: Debt Service Funds are established to account for the accumulation of resources and the payment of expenditures, principal, and interest for certain debt service arrangements.

Capital Projects Funds (Governmental Funds) 3000-3999: Capital Project Funds are established to account for financial resources used for the acquisition of systems and equipment, as well as the acquisition or construction of major capital facilities.

Enterprise Funds (Non-Governmental Funds) 4000-4999: Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (expenses, including depreciation) or providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Services Funds 5000-5999: Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (expenses, including depreciation) or providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds 6000-6999: Fiduciary Funds are used to account for assets held by Clark County as an agent or trustee for other entities and cannot be used to support the County's own programs. Investment Trust Funds report the external portion of the County's investments. Agency Funds are clearing accounts employed to account for assets held by Clark County in its role as custodian and are often offset by an equal, related liability.

Clearing Funds 8000-8999: Clearing Funds are funds used to monitor money that passes between Departments/Offices and the Treasurer's Office. These funds are in the process of clearing and reconciliation through a central processing mechanism.

H:\Financial Policies and Guidelines\Fund Balance Policies\Fund Balance Policies Guide & Checklist.docx



FUND MANAGEMENT Best Practices & Guidelines

Fund Manager

The Fund Manager is considered the 'owner' of the fund and has the overarching responsibility for the financial activity of the fund. For most funds, the Fund Manager is either an Elected Official or a Department Director.

The Fund Manager is responsible for:

- Operating within the existing appropriated budget.
- Any new budget appropriation needed for the fund.
- Collaboration with the County Manager, Budget and Financial Support Office, Financial Services Division and the County Finance Team as needed.
- Fund balance reserve policy and annual review, if applicable.
- Day-to-day management of the fund's revenue, expense, and cash activities or officially delegating this responsibility.
- Ensuring Financial Support is adequate to support fund management.
- Coordination with the Financial Services Division in the Auditor's Office and the Budget and Financial Support Office to ensure that individuals with financial responsibilities are properly trained on financial management.

Financial Support

Each Fund Manager is responsible to ensure adequate financial resources are engaged to provide detailed monitoring, forecasting, and reporting on revenues and expenses relating to the fund. The financial support role may or may not be involved in the day-to-day operational decisions for the fund. Day-to-day operational decisions may be assigned to a program manager or administrative manager. Specific tasks and expectations for each financial support role should be clearly identified by the Fund Manager.

Financial Services & Budget Oversight

The Financial Services Division within the Auditor's Office and the Budget Office will perform routine oversight of county funds and communicate any concerns or issues back to the Fund Manager and County Manager.

Monitoring & Forecasting

Appropriate fund monitoring should be conducted on a monthly, quarterly or semi-annual basis depending on the size of the fund and the amount of activity within the fund. At minimum, the fund's year-to-date activity should be reviewed using budget-to-actual reporting and a forecast should be developed to determine if any action is needed prior to the final budget supplemental. This mid-year review is intended to prevent potential over spending within existing budget appropriation and keep the county in compliance with RCW 36.40.



FUND BALANCE POLICIES PROJECT EXECUTIVE SUMMARY

Who & What?

The Budget Office and Auditor's Office have been given approval by the Interim County Manager to proceed with the **Fund Balance Policies Project**.

A fund balance or reserve policy establishes minimum levels for designated funds. At a minimum, policies should include scope and purpose; appropriate fund balance level; and use and replenishment of funds. At this time, the only fund balance policy currently in place is for the General Fund.

The approach will be multi-staged, starting with high priority funds based on importance/risk. The first stage will include major operational and internal service funds such as real estate excise tax funds, building fund, roads fund, mental health sales tax fund, facilities fund, etc. (see attached list).

Why?

The creation and adoption of fund balance policies has multiple benefits:

- ensuring stable service delivery
- meeting future needs
- protecting against financial instability.

How?

The first stage is to develop fund balance policies for major operational and internal service funds such as real estate excise tax funds, building fund, roads fund, mental health sales tax fund, facilities fund, etc.

The process of formulating proposed policies will be a collaborative effort between finance, budget and departmental staff. The analysis will include critical elements such as cash flow needs, volatility of revenue and expenses, existing debt position, existing binding commitments, capital replacement needs, prepaid items, personnel related liabilities, etc.

Once the analysis is complete, results will be presented to the County Manager, who will then use the findings to inform recommendations to the Council. The Council will ultimately decide whether to adopt the policies.

Timeline and Next Steps

This project commenced in late fall of 2017 with the goal to adopt fund balance policies for all of the 12 high risk priority funds. At this time, the project team has successfully implemented 3 of the 12 high risk priority fund policies with the goal of continuing this work in 2021-2022.

Clark County Real Estate Excise Tax 2 Fund Management Council Work Session

Wednesday, May 26, 2021 9:00am via WebEx
(following Board of Health Meeting)

Contact information:

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- Mark Gassaway, Auditor's Office/Finance Director, 546.564.4839, mark.gassaway@clark.wa.gov
- Eva Haney, Public Works Department Finance Manager, 564.397.4461, eva.haney@clark.wa.gov
- Michelle Schuster, Internal Services Interim Facilities Manager/Finance Manager, 564.397.6071, michelle.schuster@clark.wa.gov



WORK SESSION GOALS



- REET 2 Fund Management Advisory Committee & 2022 Budget Process
- Overview of Clark County Real Estate Excise Taxes
- REET 2
 - Permissible uses
 - History and forecast of revenues / expenses
 - Past and current uses
 - Fund Balance Policy recommendations
- Discussion and feedback about Council priorities for future uses



REET 2 Fund Management Advisory Committee



REET 2 Fund Management Advisory Committee

- The REET 2 Fund Management Advisory Committee is an informal group of countywide staff comprised of members from the Auditor's Office, Budget Office, Public Works, Internal Services/Facilities, Community Planning, and the Prosecuting Attorney's Office.
- The Committee started meeting in early 2021 to discuss best practices and recommendations for how to holistically manage the REET 2 Fund.
- The Committee's goal is to support the County Manager and the County Council in their decision making for current and future use of the funds starting with the 2022 Annual Budget process.
- The Committee is also making a recommendation on the REET 2 Fund Balance Policy for County Council adoption at a future Public Hearing.



Key Dates for 2022 Budget Process

This Work Session precedes the 2022 deadline for New Funding Requests so that the Committee can request feedback from the County Council about their priorities for this funding source as part of the 2022 budget development.

Council feedback is needed prior to the August 2, 2021 deadline in order to ensure submissions are developed and submitted in a timely manner.

Department/Office submissions for Baseline and New Requests	Monday, August 2, 2021
County Manager department/office meetings	September 20-24, 2021
County Manager develops recommendations	Friday, October 8, 2021
Work Session	Wednesday, October 27, 2021
Recommended budget published.....	Tuesday, November 2, 2021
2021 Budget Hearing (elected testimony)	Monday, November 15, 2021
2021 Budget Hearing (public testimony)	Tuesday, November 16, 2021
2021 Budget Hearing (public testimony)	Wednesday, November 17, 2021 <i>(if needed)</i>

Upon adoption of the annual budget, Community Planning will coordinate any needed updates to the Capital Facilities Financial Plan section of the County's current Comprehensive Growth Management Plan.



Overview of Clark County Real Estate Excise Taxes



Purpose and Rate

- **Real Estate Excise Tax (REET)** is the primary source of local taxing authorities for capital projects. It is levied on transfer of real property and is typically paid by the seller.
- Total REET rate in unincorporated Clark County is 1.78 percent – 1.28 percent is the State's portion and *0.5 percent is the County's portion*.
- The County's portion is split evenly between REET 1 (Fund 3056) and REET 2 (Fund 3083).



REET 1 (Fund 3056)

- Since 1982, cities and counties have had the option of levying a local REET to pay for capital improvements listed under the local improvement district authorization.
- RCW 82.46.010 authorizes all cities and counties to levy a 0.25 percent tax, described as "*the first quarter percent of the real estate excise tax,*" or REET 1, on real estate sales.



REET 2 (Fund 3083)

- In 1990, with passage of the Growth Management Act, cities and counties required or choosing to plan under the act were authorized to charge a second REET to pay for capital projects needed to accommodate population and economic growth and maintain required infrastructure concurrency.
- RCW 82.46.035 allows cities and counties planning under the Growth Management Act to levy a second 0.25 percent tax, or REET 2, on real estate sales.
- REET 2 is the main focus of today's Work Session.



REET 2 Focus



REET 2 Fund Description

The REET 2 Fund is an integral component in paying for the County's infrastructure needs.

State law requires that REET 2 Fund expenditures be made for those facilities included in the County's Comprehensive Growth Management Plan and Capital Facilities Financial Plan.

It is also the Clark County Council's current directive to prioritize infrastructure spending based on the following criteria:

- Pay existing debt
- Maintain existing assets
- Provide for maintenance and operations of new assets prior to acquisition



REET 2 Permissible Uses

- REET 2 Fund revenues can mainly be used for public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, railroad bridges, domestic water systems, storm and sanitary sewer systems, affordable housing*, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks. *Note that acquisition of land for parks is not an outright permitted use of REET 2 Fund receipts, although it is a permitted use for street, water, and sewer projects.*
- Under limited circumstances, REET 2 Funds may be used for maintenance of REET 2 Fund eligible projects, or for those capital projects that qualify as Real Estate Excise Tax (REET 1) projects, including acquisition of land for parks, recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative facilities, judicial facilities, and river flood control projects.

**Allowing REET 2 affordable housing expenditures was under consideration by the state legislature at the time this presentation was composed (HB 1069). The amount of expenditures may be subject to limits per the language of the law if passed.*



REET 2 Current Uses

- Clark County uses REET 2 funds for debt payments, qualifying capital projects, and qualifying REET 1 projects/maintenance.
- Definition of Capital Projects for REET 2 purposes:

Planning, acquisition, (re)construction, repair, replacement, rehabilitation or improvement of:

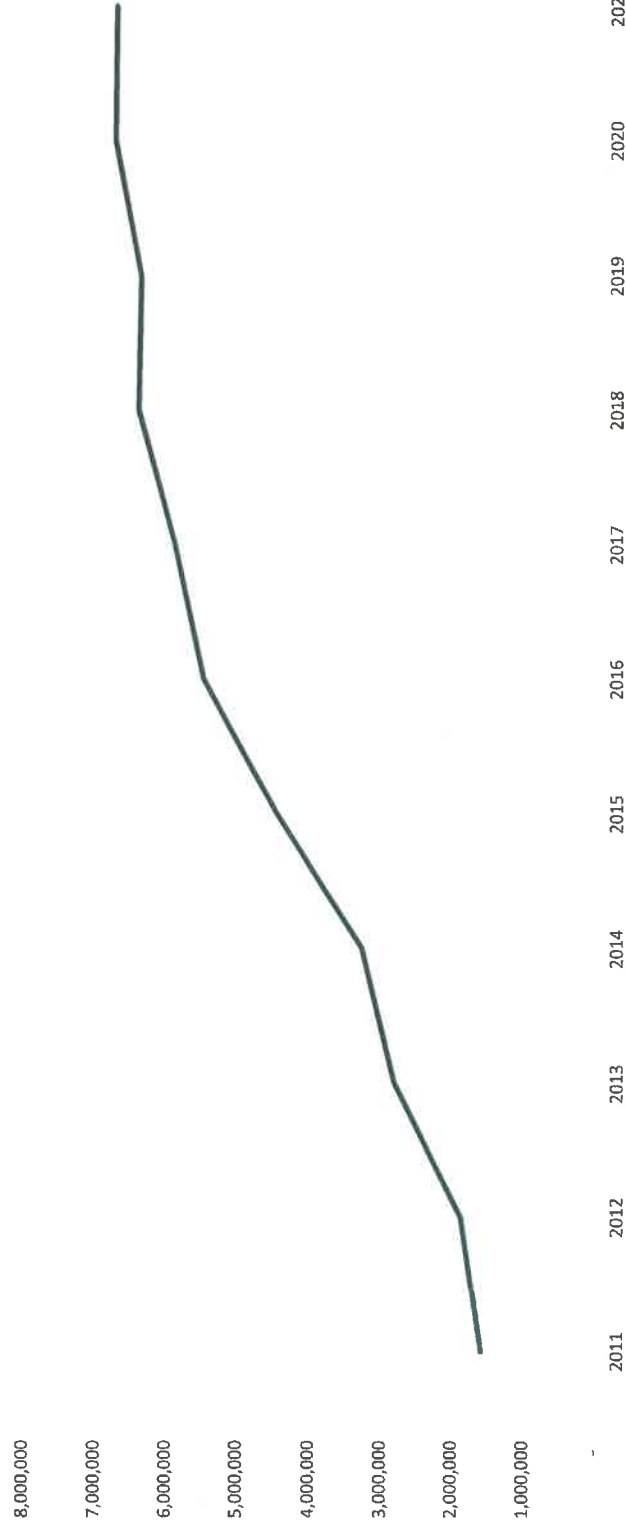
Streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems.

Parks, excluding acquisition and replacement



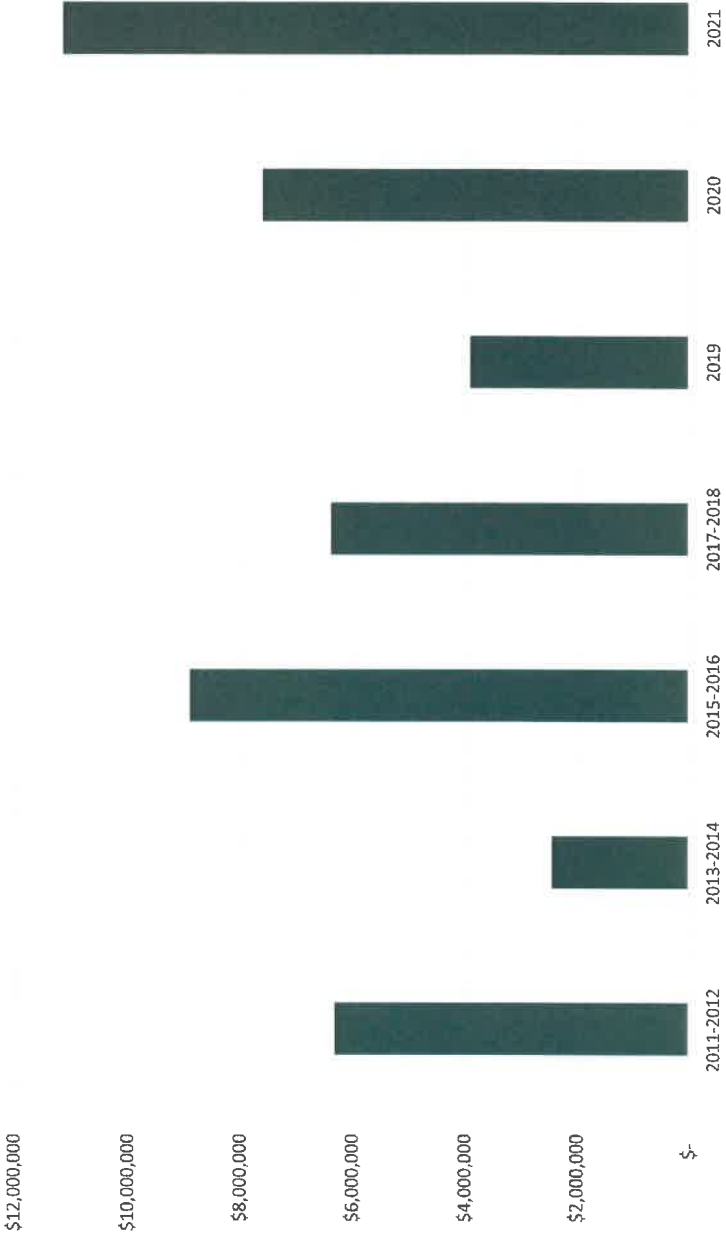
REET 2 Historical Revenues

REET is sensitive to the economic/real estate market trends and thus volatile. REET has been performing well during the COVID-19 pandemic. In 2020, REET 2 revenues were \$6.7 million. 2021 Revenues are forecasted at \$6.7 million.



REET 2 Historical Expenditures

In 2020, REET 2 expenses were \$7.6 million. 2021 expenses are forecasted at \$11.1 million.



Future Project Recommendations from Public Works

- Transportation Improvement Program
 - New Construction
 - Preservation
- Parks Capital Improvement Plan
- Stormwater Capital Plan



Future Project Recommendations from Internal Services – Facilities

- Facilities Condition Assessment Plan

- Stormwater Facilities
- Sidewalks
- Heritage Farm
- Tri Mountain Golf Course
- General Fund Parks



REET 2 Fund 6-Year Forecast & Assumptions

	Forecast 2021	Projected 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026
Beginning Fund Balance	\$ 15,718,272	\$ 12,868,615	\$ 5,900,888	\$ 5,192,590	\$ 5,727,479	\$ 7,619,368
Revenue						
Tax Revenues ¹	\$ 6,660,000	\$ 6,859,800	\$ 7,065,594	\$ 7,277,562	\$ 7,495,889	\$ 7,720,765
Other Revenues	\$ 250,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Interfund Loan Principal Payments	\$ 1,287,399	\$ 1,850,180	\$ 1,659,251	\$ 216,663		
Interfund Loan Interest Payments	\$ 84,778	\$ 63,008	\$ 31,722	\$ 3,664		
Total Revenue	\$ 8,282,177	\$ 8,842,988	\$ 8,826,567	\$ 7,567,889	\$ 7,565,889	\$ 7,790,765
Expenditures						
REET 2 Transfer (annual allowed per RCW)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)	\$ (1,000,000)
Debt Expenditures	\$ -					
Project Expenditures ²	\$ (10,131,835)	\$ (14,810,715)	\$ (8,534,864)	\$ (6,033,000)	\$ (4,674,000)	
Total Expense	\$ (11,131,835)	\$ (15,810,715)	\$ (9,534,864)	\$ (7,033,000)	\$ (5,674,000)	\$ (1,000,000)
Projected Ending Fund Balance	\$ 12,868,615	\$ 5,900,888	\$ 5,192,590	\$ 5,727,479	\$ 7,619,368	\$ 14,410,133
Minimum Fund Balance ³	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Project Expense Maximum ³	\$ (20,336,450)	\$ (17,967,683)	\$ (10,901,217)	\$ (8,849,454)	\$ (9,295,012)	\$ (11,321,827)

- ¹2021 Tax Revenue projections reflect a \$856k increase over the current 2021 Adopted Revenue budget. This forecasted increase in revenue has been adopted in the 2021 Spring Budget Supplemental. Revenue projections for years 2022-2026 reflect a year-over-year 3% projected growth. This estimated increase is based on historical revenue patterns and market indicators. The Budget Office monitors revenues received for this fund and will adjust future years forecasts, as necessary, to align with actual revenues received and current financial trends.
- ²2021 Project Expenditures are currently budgeted in the 2021 Adopted Budget. Project Expenditures for years 2022-2025 relate to Public Works TIP approved projects or future TIP and Parks projects needs that have not yet been budgeted. Project Expenditures are estimates only and will be determined by actual revenue received, cash flow and timing of project activities
- ³Minimum Fund Balance and Project Expense Maximum amounts have not yet been formally adopted by the Council.
- It is a GFOA Best Practice for a structurally balanced budget to have reoccurring revenues equal or exceed reoccurring expenditures. Reference: <https://www.gfoa.org/print/455>.*



REET 2 Fund Balance Policy

- The County's Finance Team, Budget Office and the REET 2 Advisory Committee have drafted a minimum Fund Balance Policy for the Council's consideration and adoption.
- The REET 2 Fund Balance Policy establishes minimum levels to ensure stable service delivery, meet future needs, and protect against financial instability.



Recommended Minimum Fund Balance

- It is recommended that the REET 2 Fund shall maintain a fund balance equal to the subsequent 12 months' debt payment requirements that are paid through this fund.
- The amount maintained in fund balance should be assessed regularly throughout the year and may temporarily fall below the threshold; however, the minimum balance should be in place on January 1 of each year.
- In addition, \$1 million should be held in reserve each year for maintenance and debt services on REET 1 eligible debt.
- Budgeted project expenditures shall not exceed the remaining fund balance plus sixty percent of projected revenues. This recommendation recognizes the volatility of the revenues flowing into the fund by referencing drops in revenue during the past 20 years.



Council Discussion & Next Steps

- Questions & Clarifications
- Council Feedback on Fund Balance Policy
- Council Feedback & Direction for Use of Funds
- Next Steps:
 - Public Hearing to formally adopt Fund Balance Policy
 - 2022 Budget Process: New Funding Requests due on August 2, 2021



Clark County Budget Office

"Our mission is to develop and maintain a fiscally sustainable budget that implements county council priorities."



For additional information or questions about the budget process contact:

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